

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-20 STR-08

CEA-02 PM-07 L-03 H-03 DODE-00 PA-04 USIA-15 PRS-01

AGR-20 SAJ-01 DRC-01 /197 W
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R 211722Z NOV 73

FM AMEMBASSY LONDON
TO SECSTATE WASHDC 5741
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
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DEPARTMENT ALSO PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, PINT, UK

SUBJECT: GOVERNMENT WINS CONFIDENCE VOTE IN COMMONS ON
ECONOMIC POLICY

BEGIN SUMMARY: THE CONSERVATIVE GOVERNMENT WON AN 18-
VOTE VICTORY AGAINST A MOTION OF CENSURE ON ECONOMIC
POLICY BROUGHT BY LABOR ON NOVEMBER 19. THOUGH THERE HAD
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BEEN CONCERN THAT SOME RIGHT WING TORIES WHO WERE DIS-

SATISFIED WITH THE GOVERNMENT'S OWN POLICY MIGHT SEEK TO EMBARRASS THE GOVERNMENT, THIS THREAT DID NOT MATERIALIZE. THE MAIN SPEECH BY PRIME MINISTER HEATH EMPHASIZED THE GOVERNMENT'S POLICY OF GROWTH WHILE HAROLD WILSON'S SPEECH FOR LABOR EMPHASIZED INFLATION. END SUMMARY.

1. PRIME MINISTER HEATH IN LEADING FOR THE GOVERNMENT'S DEFENSE OF ITS ECONOMIC POLICIES EMPHASIZED HIS GOVERNMENT'S DETERMINATION TO PURSUE A GROWTH POLICY. HE DECLARED THAT CHOICE FACING THE COUNTRY WAS ONE BETWEEN CONTINUED GROWTH OR STAGNATION AND DEPRESSION, AND SAID THAT THE CONSERVATIVES WERE DETERMINED TO BREAK THROUGH THE OLD "STOP-GO" CYCLE. HEATH CITED ENCOURAGING STATISTICS ON INDUSTRIAL PRODUCTION AS WELL AS THE OPTIMISTIC INVESTMENT PLANS OF PRIVATE INDUSTRY CITED IN THE MOST RECENT DEPARTMENT OF TRADE AND INDUSTRY SURVEY. HE DEFENDED THE EMERGENCY ACTION TAKEN BY THE GOVERNMENT LAST WEEK AS NECESSARY UNDER THE CIRCUMSTANCES OF THE OIL SHORT-FALL AND THE COAL MINERS' BAN ON OVERTIME WHICH IS REDUCING COAL PRODUCTION. HE STATED THAT THE MINERS IN FACT WERE BEING OFFERED A SIX PERCENT RAISE IN REAL WAGES WHICH IS HIGHER THAN THE GROWTH OF OUTPUT OVER THE NEXT YEAR.

2. HAROLD WILSON, WHILE AS USUAL, BEARING DOWN HARDEST UPON THE INFLATION ISSUE AND UPON LABOR'S TRADITIONAL CONCERN FOR LOWER PAID AND LOWER INCOME WORKERS, ALSO CLAIMED THAT THE GOVERNMENT HAD OVER-STIMULATED THE ECONOMY WITH FISCAL POLICY OVER THE PAST 18 MONTHS AND BLAMED THE GOVERNMENT'S COMPETITION AND CREDIT POLICY FOR THE RECORD HIGH INTEREST RATES WHICH NOW PREVAIL.

3. COMMENT: FROM A POLITICAL VIEWPOINT, THE DEBATE ITSELF WAS A FAIRLY STANDARD SLUGGING MATCH BETWEEN THE OPPOSITION, SPEARHEADED BY HEALEY AND WILSON, AND THE GOVERNMENT, DEFENDED BY HEATH AND BARBER. AGAINST A BACKGROUND OF GENERALLY DEPRESSING ECONOMIC NEWS RECENTLY-INCREASED PRICES, BALANCE OF PAYMENTS DEFICITS, INDUSTRIAL RELATIONS PROBLEMS AND FUEL SHORTAGES--HEATH AND HIS MINISTERS DID THEIR BEST TO DEFEND THE GOVERNMENT'S LIMITED OFFICIAL USE

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ECONOMIC POLICIES. THE OPPOSITION FAILED SIGNALLY TO MAKE A PERSUASIVE CASE FOR ALTERNATIVE ONES.

ENTERING THE DEBATE, THE GOVERNMENT HAD BEEN CONCERNED ABOUT THE POSSIBILITY OF ABSTENTIONS, OR EVEN NEGATIVE VOTES, BY SOME OF ITS RIGHT WING FISCAL CRITICS, IN PARTICULAR ENOCH POWELL. TORY PARTY MORALE IS POOR, AT THE MOMENT, AND POLITICAL SOOTHSAYERS HAD BEEN PRE-

DICTING THAT THIS DISAFFECTION WOULD SHOW. IN THE
EVENT, IT DID NOT. PERFECTLY AWARE OF THE INTERNAL
OPPOSITION TO ITS POLICIES WITHIN THE TORY PARTY, THE
GOVERNMENT MUST NEVERTHELESS BE SATISFIED AT WINNING AN
IMPORTANT VOTE.

THE DEBATE DEMONSTRATES ONCE AGAIN THAT HEATH IS
FIRMLY FIXED IN HIS POLICY OF ECONOMIC GROWTH IN SPITE OF
CONTINUING PRESSURES, INCLUDING SOME OF HIS OWN PARTY,
FOR A CHANGE TO A DEFLATIONARY FISCAL POLICY. IT IS THE
GOVERNMENT'S CONTENTION THAT THE RATE OF PUBLIC EXPENDI-
TURE WILL BE GREATLY REDUCED NEXT YEAR AND THEREAFTER AND
HEATH DECLARED HE WOULD NOT HESITATE TO CUT FURTHER ON

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PUBLIC EXPENDITURE IF THE CIRCUMSTANCES WARRANTED IT.
THE GOVERNMENT MAINTAINS THAT THE MONETARY SQUEEZE OF
LAST WEEK WAS A NECESSARY MOVE TO PRESERVE THE STERLING
EXCHANGE RATE AND IS NOT THE FIRST STEP OF THE SLOWDOWN.

4. IN THE PAST, LABOR HAS ATTACKED THE GOVERNMENT ON
"INFLATION," BUT MAY NOW BE FOCUSING ON SPECIFIC POLICIES
ON WHICH THEY CONSIDER THAT THE GOVERNMENT IS VULNERABLE
SUCH AS THE ISSUE OF FISCAL OVER-STIMULATION AND CREDIT
CONTROL.

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5. IN CURRENT CIRCUMSTANCES IT WILL BECOME INCREASINGLY
DIFFICULT FOR HEATH TO MAINTAIN HIS GROWTH POLICY. ENERGY
SHORT-FALLS IN THEMSELVES COULD CAUSE PRODUCTION CUTBACKS.
AND A FALL IN THE GROWTH RATE, PARTICULARLY IF THE
MINERS' BAN ON OVERTIME CONTINUES VERY MUCH LONGER. THIS
WOULD NOT NECESSARILY STEM INFLATION GIVEN THE COMMODITY
SITUATION AND THE PROBLEMATIC CHANCES OF SUCCESS OF
STAGE 3 OF THE GOVERNMENT'S PROGRAM TO CONTROL INFLATION.
BOTH COST-PUSH AND DEMAND PULL FACTORS ARE EVIDENT.

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